

Office of the New Mexico State Auditor
Special Investigations Division (SID)
Pre-Designation Checklist

AGENCY_ Northern New Mexico College_____

TRACKING # __2017-0028__

AGENCY # __963__

ASSIGNMENT __HT__

Instructions

YES	NO	N/A		Responsible/Initials
Receive Information				SID Director
X			Log into spreadsheet	KS
X			Assign tracking number	KS
X			Ensure consistency with agency name	KS
X			Check for duplicate complaints	KS
Triage Meeting				SID Director / Executive Member
X			Initial discussion of complaint with Executive member present	KS
X			Initial review of jurisdiction	KS
X			Prioritization – documented in spreadsheet (1-4)	KS
X			Assignment – documented in spreadsheet	KS
			Identify what the Auditor will assess basic facts of allegation, initial determination of issue, jurisdiction, criteria. Is additional information required?	
Initial response				Assigned Auditor
x			Written documentation of issue placed in a file (hotline complaint, printout of articles, memo to file)	HT
			Assigned Auditor considers related party/conflict-of-interest/independence evaluation and notifies SID Director of any potential impairment	
x			Assigned Auditor sends out "3-day acknowledgement" and request for more information	
	x		Posting through Netclaims (Date here:)	
x			Letter or email (Date here: March 1, 2017)	
Weekly Executive Update				SID Director
			Include new additions to the tracking sheet on agenda	
			Briefly discuss issue and make recommendations regarding next steps	
Fact Finding				Assigned Auditor
			Public documents research – retain documentation in the case file	HT
	x		This stage should include the following at a minimum:	
x			- 'Google' the issue or allegation	
x			- Check local news sources (newspapers, blogs, television stations, radio stations)	
	x		- Review agency website for relevant info (minutes, contracts, check register, org chart)	
x			- Review relevant statutes and regulations/ policies	
x			- Obtain relevant documents (contracts, MOUs, etc)	
	x		- Check oversight agency records (ex: USDOT, PED, City of Albuquerque Internal Audit)	Referred to law enforcement
x			- Search the NM Courts website	
x			- Review prior year audits	See2015-0246
	x		- Review USASPENDING.gov for federal grant related issues	
Confirmation of basic facts of allegation – retain documentation in the case file				HT
	x		This stage should include the following at minimum:	
x			- Confirm identities of people involved	
x			- Confirm existence of programs/grants affected	
x			- Confirm the who, what, when, where, why	
Assigned Auditor makes initial determination of issue – retain documentation in the case file				HT
x			Is the allegation actually something wrong?	
	x		If it is wrong:	
x			- Is it criminal?	
x			- Is it new enough to take action? What is the statute of limitations and when does it expire?	
	x		- Is the alleged offender still there?	
x			- Is the dollar value material?	Unknown in fy 2017
x			- Is this an OSA issue?	
Assigned Auditor and SID director develop recommendation that SID director presents to Executive Management				SID Director / Auditor
Recommendation may be:				HT
x			- Refer out (with or without closure)	
x			Refer to management?	
x			Refer to oversight?	
x			Refer to another agency	
	x		- OSA GAO?	
x			- Close (with outgoing language or letter)	
x			- OSA/SID investigate further, learn more, consider requesting info from agency	



Timothy M. Keller
State Auditor

Sanjay Bhakta, CPA, CGFM, CFE, CGMA
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

Via Email and U.S. Mail

October 4, 2017

Joshua Trujillo
REDW, LLC
PO Box 93656
Albuquerque, NM 87199-3656

Re: Northern New Mexico College ("Agency") – Referral for FY 2017 Audit

Dear Mr. Trujillo:

In the context of the background information attached to this letter, the Office of the State Auditor ("Office") is providing this communication to inform you ("Firm") that we have received information which suggests that elevated risk exists in the governance of the Agency Foundation.

When assessing the Foundation's responses to finding 2013-002 "Bank Reconciliations – Timeliness and Review Process – Foundation," enclosed, from the fiscal year 2016 audit please consider the corrective actions taken in response to all the recommendations rather than just those recommendations related to the reconciliation process. This assessment might include all controls over cash and investments exceeding \$3 million.

In addition, please assess whether there is effective oversight over this component unit; that gifts, bequests and other donations are promptly recorded; that any restrictions or conditions are carefully considered and acted upon; that investments are properly valued and accounted for; that the selection of investment managers is based upon competitive processes.

Finally, when assessing the Agency's response to finding 2016-002 please consider whether there is sufficient audit evidence to support an accurate estimate of known losses related to the alleged misappropriation. We enclose a copy of our case closure letter to the Agency.

As part of your planning and risk assessment procedures please contact Kevin Sourisseau, CPA at 505-476-3820 Kevin.Sourisseau@osa.state.nm.us or Hamish Thomson, CPA/CFF, CFE at 505-476-3818 Hamish.Thomson@osa.state.nm.us to schedule a brief telephonic or in-person meeting with the Special Investigations Division. The meeting, in combination with this letter, is necessary to ensure that the Office's knowledge of other information indicating potential risk is communicated timely to your firm so you can appropriately consider the information during your risk assessment in accordance with AU-C Section 240. The meeting will also facilitate discussion

about the concerns noted above and ensure that open lines of communication exist between the Office and your Firm.

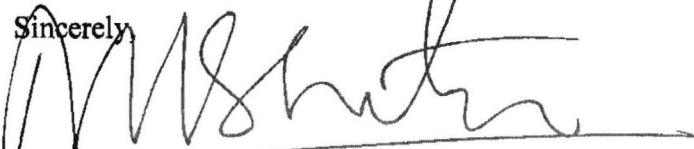
Please take the circumstances described above in to account in your risk assessment and perform such procedures as, in your professional judgement, are necessary to determine what further action, if any, in the form of additional disclosure, findings and/or recommendations are appropriate in connection with the FY 2017 annual audit of the Agency.

After the conclusion of fieldwork related to these matters, **but no later than two weeks prior to submitting the draft annual audit report to the Office for review**, please provide written confirmation to the Office that your Firm took appropriate action in response to this referral. If there are disclosures, findings, and/or recommendations associated with this referral included in the FY 2017 annual audit report, please reference them in your written confirmation. If no additional disclosures, findings, and/or recommendations resulted from this referral please include language indicating that no reportable conditions were noted.

Be sure to include adequate documentation in your audit workpapers to support your written confirmation to the Office that your Firm took appropriate action in response to this referral. As outlined in 2.2.2.13 NMAC the Office may review the Firm's workpapers associated with the annual audit of the Agency. If this engagement is selected for a workpaper review the Office will examine your Firm's documentation associated with this referral. Insufficient or inadequate documentation may result in deficiencies noted in the workpaper review letter and may negatively impact your Firm during the subsequent firm profile review process. In accordance with 2.2.2.8.D NMAC, IPAs may be placed on restriction based on the Office's review of the firm profile and various deficiency considerations. The deficiency considerations include failure to comply with Office referrals such as this one in a timely manner.

If you have questions, or need additional information regarding this communication, please do not hesitate to contact us. The Office of the State Auditor appreciates your assistance with this issue and looks forward to working closely with you and your Firm.

Sincerely,



Sanjay Bhakta, CPA, CGFM, CGMA, CFE
Deputy State Auditor

Enclosure: Finding 2013-002 from the fiscal year 2016 financial statements
Office of the State Auditor letter dated October 2, 2017

BACKGROUND INFORMATION ON REFERRALS

The Audit Act (NMSA 1978, Sections 12-6-1 et seq.) states that audits of New Mexico governmental agencies “shall be conducted in accordance with generally accepted auditing standards and *rules issued by the state auditor* [emphasis added]” (12-6-3 NMSA 1978). Accordingly, on an annual basis the Office of the New Mexico State Auditor (“Office”) promulgates the Audit Rule. The objective of the 2017 Audit Rule is to “establish policies, procedures, rules and requirements for contracting and conducting financial audits, special audits, attestation engagements, performance audits, and forensic audits of governmental agencies of the state of New Mexico” (2.2.2.6 NMAC).

The Audit Act requires that “the state auditor shall cause a complete written report to be made of each annual or special audit and examination made. Each report shall set out in detail, in a separate section, *any* [emphasis added] violation of law or good accounting practices found by the audit or examination.”

In accordance with statute, the 2017 Audit Rule incorporates the following language “when auditors detect violations of law or good accounting practices that shall be reported per 12-6-5 NMSA 1978, but that do not rise to the level of significant deficiencies or material weaknesses, such findings are considered to warrant the attention of those charged with governance due to the statutory reporting requirement. The auditor shall communicate such violations in the ‘compliance and other matters’ paragraph in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards. Findings required by Section 12-6-5 NMSA 1978 shall be presented in a separate schedule of findings labeled ‘Section 12-6-5 NMSA 1978 findings.’ This schedule shall be placed in the back of the audit report following the financial statement audit and federal award findings. Per AAGGAS¹ 13.47 there is no requirement for such findings to be included or referenced in the uniform guidance compliance report.” (2.2.2.10.L (1) (c) NMAC).

In conducting risk assessment associated with the annual audit of an agency subject to the 2017 Audit Rule, Independent Public Accountants are instructed to refer to 2.2.2.10.J NMAC which requires that “an IPA shall identify significant state statutes, rules and regulations applicable to the agency under audit and perform tests of compliance.” **Materiality in relation to the audit of the financial statements does not apply to compliance with state statutes, rules and regulations.**

¹ AAGGAS is the most recent edition of the Audit and Accounting Guide for Governmental Auditing Standards and Single Audits published by the American Institute of Certified Public Accountants.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

**2013-002 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS- FOUNDATION
(REPEATED & UPDATED)**

TYPE OF FINDING: Material Weakness

CATEGORY: Cash and Investments

CONDITION

The Foundation's complete bank reconciliation process, including review, was not performed timely for the Foundation's fiscal year 2016 cash accounts until the Senior Financial Analyst took over the process in January 2016.

Additionally, there was a check that was deposited into the College's bank account and then months later the Foundation was reimbursed when questions were asked about the receipts. Testing of the June 30, 2016 bank reconciliations showed two unusual deposits in transit for \$11,136 and \$3,838. Per discussion with the Senior Financial Analyst, these deposits had been deposited into the College's bank account on June 6, 2016 as part of a larger check totaling \$14,974. The mistake was discovered on August 10, 2016, and the bank reconciliation was updated and funds deposited the following day. JAG traced the amounts from the College's employee deduction register, to the College's General Operating Fund June 2016 bank statement, to the August 2016 bank statements for the Foundation's temporarily restricted and unrestricted accounts.

CRITERIA

Appropriate internal controls over cash require timely reconciliation and review of all accounts to the general ledger in order to ensure adequate control over cash receipts and disbursements.

EFFECT

Not reviewing cash accounts on a monthly basis creates the opportunity for errors or inappropriate transactions to occur undetected. Some banks will not correct any errors if they are not caught within ten days.

CAUSE

During the year, the College had time constraints, turnover in Foundation staffing, and a lack of appropriate resources to timely review its cash reconciliations.

RECOMMENDATION

We recommend the Foundation prioritize the reconciliation process and implement policies and procedures to ensure that all cash accounts are reconciled timely and reviewed monthly.

We also recommend for enhanced transparency of cash and other financial activities, that the Foundation consider adding the following to their website:

- Most current IRS Form 990
- Consider having separate audit report (done in conjunction with College's audit report) for publication to the public
- Other documents like spending policy on endowments, gift policy, etc.
- Monthly detail of disbursements
- Annual detail of scholarships awarded

Finally, since the Foundation is a separate legal entity with many of its own internal control processes, we recommend the Foundation have its cash deposit supporting package separate from the College.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

**2013-002 BANK RECONCILIATIONS – TIMELINESS AND REVIEW PROCESS- FOUNDATION
(REPEATED & UPDATED) (CONTINUED)**

MANAGEMENT RESPONSE

Corrective action(s):

The College recognizes the importance of this control and although bank reconciliations were complete, we did not post journal entries in a timely manner. We will continue to utilize the Access database and electronic folders to track and upload the bank reconciliations and approval signatures. Because posting of the journal entries was not timely, it delayed uploads as well as the reviews.

Timeline of corrective action:

The issue is expected to be completed within FY18 (2017-2018).

Responsible Person:

Vice President for Finance and Administration

Timothy M. Keller
State Auditor



Sanjay Bhakta, CPA, CGFM, CFE, CGM,
Deputy State Auditor

State of New Mexico
OFFICE OF THE STATE AUDITOR

October 4, 2017

Richard J. Bailey, Ph. D., President
Northern New Mexico College
921 N. Paseo de Oñate
Española, NM 87532

Re: Potential Criminal Violation at Northern New Mexico College

Dear Dr. Bailey:

Thank you for providing the Office of the State Auditor ("Office") with information, by letter dated February 27, 2017, regarding Northern New Mexico College ("NNMC") and a potential misappropriation of funds by the former Finance Director in fiscal years 2012 and 2013. This letter closes our case related to the former Finance Director.

The Office, as required by NMSA 1978, Section 12-6-6, referred those allegations on March 1, 2017 to the 1st Judicial District Attorney and to the New Mexico State Police. NNMC has since contracted with McHard Accounting Consulting LLC to perform additional forensic consulting services and investigative efforts.

The Independent Public Accountant completed their audit report and findings for fiscal year 2016 on March 27, 2017. Finding 2016-002, enclosed, addressed the issues related to NNMC's notification and states that they were "unable to verify the detail of checks taken since the box was taken as evidence by law enforcement." In order to strengthen your internal controls, supplemental to your monthly updates which we appreciate, the OSA suggests that you work with law enforcement to obtain copies of NNMC records in their possession. This information may provide NNMC with additional relevant facts and documents for the purpose of assessing your loss in fiscal year 2017 and earlier.

The OSA appreciates your attention to this issue. If you have any questions or need additional information regarding this matter, please do not hesitate to contact me directly via phone at 505-476-3820 or email at Kevin.Sourisseau@osa.state.nm.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Hamish Thomson".

Hamish Thomson, CPA/CFF, CFE
Special Investigations Division

Enclosed: Finding 2016-002

cc: Ricky Bejarano, CPA, Chief Financial Officer, NNMC
Janet McHard, McHard Accounting Consulting, LLC
Charles B. Laster, Director, Post Audit Group, U.S. Department of Education
Captain Dale Wagoner, State Police
Jennifer Padgett, Deputy District Attorney
Joshua Trujillo, REDW, LLC

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE

TYPE OF FINDING: Material Weakness

CATEGORY: State Law Compliance – Other

CONDITION

During this year's audit, JAG requested cash reconciliations through the normal, routine audit process. However, the former Director of Financial Services did not provide these timely, along with other areas relating to prior year or current year findings. JAG continued to request the cash reconciliations in several formal meetings with her and management as the audit progressed.

Close to the audit deadline of November 15, 2016, we contacted the Vice President for Finance and Administration and the College President to again communicate that she was not being forthcoming with the information. After much evasion, the former Director of Financial Services finally provided the reconciliations the evening before the scheduled exit conference. After auditing the reconciliations, we concluded that the General Operating Account bank reconciliation's outstanding checks appeared to be intentionally altered to exclude certain outstanding checks and even portions of outstanding checks in order to force the book to bank difference to reconcile.

When questioned, the former Director of Financial Services stated that the bank reconciliation had errors that needed to be researched and that she had changed the reconciliation from what her staff had prepared. The College requested additional time to research and correct the bank reconciliation. JAG notified the NM State Auditor's Office of the irregularity, the risks of fraud and that the audit would be late.

JAG and the College's Administration continued to press her for the information and in February 2017, after consulting with the Deputy State Auditor, JAG recommended the College hire an external contractor to reconcile all the bank accounts to the general ledger from the time the former Director of Financial Services began her employment through June 30, 2016. To ensure complete independence and transparency over the process, JAG also recommended that both the former Director of Financial Services and the Vice President for Finance and Administration be excluded from the cash reconciliation work with the contractor.

The following Monday, the former Director of Financial Services resigned from her position and admitted to taking over \$200,000 from the College. She provided a spreadsheet with a detail of deposits taken covering the time period of August of 2012 through July of 2013 (approximately \$71,000 in cash and \$135,000 in checks, totaling approximately \$206,000). The revised bank reconciliation at June 30, 2016 shows an additional approximately \$24,000 in reconciling items added to the bank reconciliation from July of 2013 through August of 2015. The checks were apparently uncashed, however we were unable to verify the detail of checks taken since the box was taken as evidence by law enforcement. *The amounts may be higher and there are several other areas of fraud risk yet to be investigated.*

Interviews of staff reveal that they had asked about missing deposits multiple times and the former Director of Financial Services just replied that there were more important things to work on and that the Vice President for Finance and Administration was researching these items. It was also reported to us that there had been phone calls from parents, students, and other organizations asking why their checks had not been cashed. These calls were referred to the former Director of Financial Services and some checks were replaced, but there was no accountability.

After the admission, the College properly notified the New Mexico State Auditor's Office as is required by Section 12-6-6 NMSA 1978.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

JAG recommends a forensic special audit be performed for the related time period. At this time, account balances and the extent of any fraud, waste, or abuse is unknown, causing Disclaimer opinions on the College's financial statements and federal funds.

CRITERIA

NM State Audit Rule 2.2.2.10 (K) (2) Pursuant to Section 12-6-6 NMSA 1978 (criminal violations), an agency [College] or IPA [external auditor] shall notify the state auditor immediately, in writing, upon discovery of any violation of a criminal statute in connection with financial affairs. The notification shall include an estimate of the dollar amount involved, and a complete description of the violation, including names of persons involved and any action taken or planned. If warranted, the state auditor may cause an audit of the financial affairs and transactions of the agency in whole or in part pursuant to Section 12-6-3 NMSA 1978 and 2.2.2.15 NMAC. If the state auditor does not designate an agency for audit, an agency shall follow the provisions of 2.2.2.15 NMAC when entering into a professional services contract for a special audit, performance audit or attestation engagement regarding the financial affairs and transactions of the agency relating to financial fraud, waste and abuse.

If any information comes to our attention (regardless of materiality) indicating any fraud, illegal acts, noncompliance, or any internal control deficiencies, such instances must be disclosed in the report as required by Section 12-6-6 NMSA 1978. Additionally, the external auditor's consideration of fraud in a financial statement audit includes reporting to management and/or governance any evidence that fraud may exist.

The Governmental Conduct Act NMSA 1978 Section 10-16-2(I): "Public employees" include employees of local governmental agencies, officers, elected or appointed officials, and those eligible to receive per diem or mileage.

Public employment or office is a public TRUST. Officers and employees must maintain integrity and high ethical standards. Public officers and employees shall:

Section 10-16-3(A): Not use their position to advance personal or private interests, and

Section 10-16-3(C): Disclose real or potential conflicts of interest.

Section 10-16-2(I): Not offer, request or receive any money or thing of value in exchange for performance of an official act, or take official act which primarily enhances personal financial interest. Imposes 4th degree felony penalties, Sections 10-16-3D and 10-16-4A.

Section 10-16-3.1C: Not use or allow use of governmental property for unauthorized purposes.

Section 10-16-4B,C Not engage in an official act directly affecting personal financial interest (unless greater benefit accrues to the public) or acquire financial interest which will be affected by the officer's or employee's official action.

NMSA 1978 30-16-6 *Fraud* consists of the intentional misappropriation or taking of anything of value which belongs to another by means of fraudulent conduct, practices or representations.

NMSA 1978 Section 30-16-1 *Larceny* consists of: A) Larceny consists of the stealing of anything of value that belongs to another. B) Whoever commits larceny when the value of the property stolen is two hundred fifty dollars (\$250) or less is guilty of a petty misdemeanor. C) Whoever commits larceny when the value of the property stolen is over two hundred fifty dollars (\$250) but not more than five hundred dollars (\$500) is guilty of a misdemeanor. D) Whoever commits larceny when the value of the property stolen is over five hundred dollars (\$500) but not more than two thousand five hundred dollars (\$2,500) is

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

guilty of a fourth degree felony. E) Whoever commits larceny when the value of the property stolen is over two thousand five hundred dollars (\$2,500) but not more than twenty thousand dollars (\$20,000) is guilty of a third degree felony. F) Whoever commits larceny when the value of the property stolen is over twenty thousand dollars (\$20,000) is guilty of a second degree felony.

NMSA 1978 Section 30-16-8 *Embezzlement* consists of the embezzling or converting to his or her own use of anything of value with which he or she has been entrusted, with fraudulent intent to deprive the owner thereof.

NMSA 1978 Section 30-16-10 *Forgery* consists of: A) falsely making or altering any signature to, or any part of, any writing purporting to have any legal efficacy with intent to injure or defraud; or B) knowingly issuing or transferring a forged writing with intent to injure or defraud. "Legal efficacy" is a writing which could be made the foundation of liability, that would apparently operate to the legal prejudice of another. We usually think of forgery as altering a document for financial gain but it can also be "any document required by law to be filed...or necessary...to the discharge of a public official's duties."

NMSA 1978 Section 30-23-3 Making or permitting false public voucher consists of knowingly, intentionally or willfully making, causing to be made or permitting to be made, a false material statement or forged signature upon any public voucher, or invoice supporting a public voucher, with intent that the voucher or invoice shall be relied upon for the expenditure of public money. Whoever commits making or permitting false public voucher is guilty of a fourth degree felony.

NMSA 1978 Section 30-26-1 *Tampering with Public Records* consists of: A) knowingly altering any public record without lawful authority; B) any public officer or public employee knowingly filing or recording any written instrument, judicial order, judgment or decree in a form other than as the original thereof in fact appeared; C) any public officer or public employee knowingly falsifying or falsely making any record or file, authorized or required by law to be kept; D) any public officer or public employee knowingly issuing or causing to be issued, any false or untrue certified copy of a public record; or E) knowingly destroying, concealing, mutilating or removing without lawful authority any public record or public document belonging to or received or kept by any public authority for information, record or pursuant to law. Whoever commits tampering with public records is guilty of a fourth degree felony.

EFFECT

Allegations of fraud or actual fraud causes a decrease in public trust of the College. There is potentially fraud, larceny, and embezzlement of public funds that taxpayers, the Board of Regents, Administration, parents, staff, and students worked so hard to obtain for education. There are costs associated with investigating and auditing these situations further.

CAUSE

The College did not thoroughly take corrective action on previous audit findings over cash and other areas of internal control weaknesses and critical segregation of duties was allowed to be overridden by management and staff. The former Director of Financial Services overrode the College's internal control processes that did exist, including taking deposits to the bank and changing the bank reconciliations after the preparer had completed the reconciliations. The Vice President for Finance and Administration did not thoroughly review the bank reconciliations as the control was designed and asserted to the auditors in the prior year. Staff involved in the cash transaction cycle questioned the former Director of Financial Services on multiple occasions but never took their concerns to a high enough level to be fully addressed.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

RECOMMENDATION

We recommend the Board of Regents, the Finance Committee, Administration, and other staff assess risk and put into place stronger controls and a high level of transparency and accountability to prevent and detect any future fraud or noncompliance. We recommend that the College make it a goal to be the most transparent College in the state and take the lead in transparency on their website and include the following:

- All salary schedules
- All disbursements
- All teacher contracts
- All vendor contracts
- Copies of the budget, including budget adjustments
- Monthly and annual financial statements
- Enrollment information and statistics
- Federal grant results and reports
- Complete Foundation information or link to their website with full information
- Consider disclosing all non-privacy related correspondence
- Link the NM State Auditor's Office fraud anonymous hotline

Tone at the top is absolutely critical, along with monitoring and accountability for controls, and including an open door policy to reporting suspicions, ideas, and asking questions to Administration and the Board without fear of retaliation. A separate HR Director who staff feel safe with is also important. Consider performing credit checks on those who will be working with the College's finances. We also recommend bonding key employees and those working with cash.

Internal Auditing is an important function of successful organizations. Adding an internal auditor that reports directly and independently to the Board of Trustees would be valuable in monitoring the controls you will put into place. This function can also be contracted out at reasonable rates and hours you control, perhaps with more effective results than hiring a full-time staff.

Training of staff to not allow internal controls to be circumvented even by a superior and to understand their duties will be helpful in preventing this from occurring in the future. Hiring an outside consultant to assist the College in training, reconciling, designing, implementing, and monitoring compliance with statutes, regulations, controls, policies, procedures, etc. is advisable.

Fraud is rarely discovered by the external audit as it was this year. It is mainly discovered through anonymous tips, so instituting an anonymous fraud hotline is important.

MANAGEMENT RESPONSE

Corrective action(s):

The College will bring forward a plan to the Board of Regent's Finance Committee and will present monthly updates regarding the corrective action related to all audit findings until they are resolved. The College is also proposing in the operating budget for FY18 (2017-2018) a contract for internal audit services to assist the Board of Regents, the Finance Committees, Administration, and other staff in our efforts to further assess risk and improve and strengthen internal controls. The College also supports the notion of a higher level of transparency and accountability and will continue to do so in our efforts to prevent and detect any future fraud or noncompliance.

**NORTHERN NEW MEXICO COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

2016-002 POTENTIAL FRAUD, FORGERY, EMBEZZLEMENT, LARCENY AND NON-COMPLIANCE (CONTINUED)

Timeline of corrective action:

An operating budget will be developed and brought forward to the Board of Regents for their approval on April 10, 2017, as well as a contract for internal audit services implemented for FY18 (2017-2018).

Responsible person(s):

Vice President for Finance and Administration



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

September 21, 2017

ELECTRONIC TRANSMISSION – CONFIRMATION OF RECEIPT REQUESTED

Richard J. Bailey, Ph.D.
President
Northern New Mexico Community College
921 Paseo De Oate
Espanola, New Mexico 87532

Re: Audit Control Number: 06-16-79687
CFDA Number: 84.031

Dear Dr. Bailey:

This letter transmits the program determinations by the U.S. Department of Education (ED) regarding findings in the single audit report of Northern New Mexico Community College (College) for the fiscal year ending June 30, 2016. The audit, issued on March 27, 2017, was performed by the firm of JAG LLP, in compliance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The audit identified a large number of findings involving cross-cutting functions and the College's internal controls.¹ The findings this letter resolves concern a Higher Education Institutional Aid (Title III) grant awarded by the Office of Postsecondary Education (OPE), and related aspects of grant administration. ED's Post Audit Group (PAG), Office of the Chief Financial Officer, is responsible for resolving the findings, presented in detail below.

Audit Finding No. 2016-002, Page 68, State Law Compliance

The auditor found that the College's General Operating Account bank reconciliations had been intentionally altered to exclude certain outstanding checks and even portions of outstanding checks. Subsequent investigation resulted in the Director of Financial Services' resignation and admission of taking over \$200,000 from the College, involving cash and checks. The auditor stated he could not verify the amounts taken because evidence was taken by law enforcement. The audit firm reported the finding to the New Mexico Office of the State Auditor. Because account balances and the extent of any fraud, waste, or abuse are unknown, the single auditor

¹ A number of the other findings in this audit overlap or contribute to the conditions described in Finding 2016-002 and concern the administration of ED grants. Several were characterized by the auditor as material weaknesses or significant deficiencies. They include: (1) Finding 2016-001, Delay in submitting the single audit; (2) 2016-003, Insufficient attention and accountability over accounting and internal controls; (3) 2016-004, Insufficient security of accounting records/backup of electronic documents; (4) 2016-006, Segregation of duties; (5) 2016-007, Financial close & reporting; (6) 2016-008, Lack of internal controls over cash receipts process; (7) 2016-009, Lack of internal controls over cash disbursements and transfers process; (8) 2016-010, Lack of internal controls over journal entries; (9) 2016-017, Outdated policies and procedures; (10) 2016-018, Lack of monitoring and corrective actions; (11) 2016-019, Lack of established practices for the identification, mitigation and monitoring of risks; (12) 2016-021, Review and clean-up of clearing and suspense and accounts.

stated that it was disclaiming an opinion on the College's financial statements and Federal funds, and it recommended the performance of a forensic special audit for the related time period.

The auditor attributed the embezzlement to the College's not taking thorough corrective actions on previous audit findings over cash management and allowing staff to override other areas of internal control weaknesses and critical segregation of duties. The former Director of Financial Services overrode the College's internal control processes and took deposits to the bank and changed bank reconciliations after these had been completed. The auditor stated that the Director's supervisor, the Vice President for Finance and Administration, did not thoroughly review the bank reconciliations as the control was designed and had been asserted to the auditors in the prior year. Staff involved in the cash transaction cycle had questioned the former Director on multiple occasions but never took their concerns to a high enough level to be fully addressed.

Auditor's Recommendations

The auditor made several recommendations:

- (1) Have a *risk assessment* [of internal controls] conducted by the Board of Regents, its Finance Committee, and other staff, and put in place stronger controls, along with a high level of transparency and accountability in order to prevent and detect any future fraud or noncompliance.
- (2) Consider performing *credit checks* on those who will be working with the College's finances and *bonding of key employees*, and those working with cash.
- (3) Add an *internal auditor*, reporting directly and independently to the Board of Regents, to monitor controls that will be put in place. The single auditor noted that the function could be contracted out.
- (4) *Train staff* not to allow internal controls to be circumvented. Hire an outside consultant to assist the College in training, reconciling, designing, implementing, and monitoring compliance with statutes, regulations, controls, policies, procedures.
- (5) Encourage *reporting of suspicious activity*, for example by instituting an anonymous fraud hotline, and linking it to the State Auditor's hotline.

The College's Response

The College committed to bring forward a plan to the Board of Regents' Finance Committee and to present monthly updates regarding the corrective actions related to all audit findings until they are resolved. The College added that it would propose in the FY 2018 operating budget a contract for internal audit services to assist the Board of Regents, the Finance Committee, the Administration, and other staff to further assess risk and improve and strengthen internal controls. The College noted that it also supported a higher level of transparency and accountability and would continue to do so in its efforts to prevent and detect any future fraud or noncompliance. It committed to developing and bringing, by April 10, 2017, an operating budget for the Board of Regents' approval, in addition to a contract for internal audit services for FY 2018.

PAG Determination

We sustain the finding and concur with the auditor's recommendations. In consultation with our OPE colleagues, in resolving this finding and recommendations, we focused on ensuring that funds from this program had not been embezzled and that progress was made in addressing the

multiple recommendations the auditor made. Further, ED's procedures require an evaluation of the risks posed by applicants before they receive Federal awards. An important aspect of this risk assessment is audit history and corrective measures to address audit findings. The resolution of this audit's findings will be made available to those engaged in this risk assessment process.²

We inquired of the College regarding the progress it had made in implementing the auditor's recommendations. This is the status of corrective measures, as of September 7, 2017:

Forensic Audit. The College reports that it has contracted with forensic specialists to review Title III funding, including whistleblower complaints regarding alleged supplanting or misuse of that program's funds. If additional information becomes available, the investigation may expand to misspending beyond Title III funds. The review is expected to be completed in eight to twelve weeks, and will address any internal control issues identified, and recommendations for improvement.

Internal Audit Services. The College said it was looking to forensic auditors for a rigorous assessment of improvements that could be made in light of the embezzlement finding. Looking ahead, for continuous support services, the College stated that it had already issued a request for bids, adding that it might need to issue a Request for Proposals if the bids received meet or exceed the State's threshold for competitive procurement.

Hotline. The College stated that it made arrangements with the State Auditor to use its hotline as a reporting mechanism for reporting suspicious activity by its students, faculty, staff and members of the public. The College added that it is working on various ways to publicize this resource.

Bonding and Background Checks. The College says that it is working with the State of New Mexico's General Services Department to ensure bonding of its financial staff. It added that it is seeking bids for background checks, but must verify whether and how that can be implemented.

Other Procedures Modified. In light of the audit finding that bank deposits had been diverted, the College stated that it had made changes in the deposit process and the reconciliation of accounts. Key aspects will be ensuring the integrity of the process, including the segregation of duties.

Additional Staff. The College stated that it expects to hire by October 31, 2017 an additional qualified accountant, preferably a certified public accountant with experience in Federal grants. On a related matter, described below, in the resolution of Finding 2016-032, the College has committed to hiring a Grants Manager.

Training. The College also reports that it is discussing with the forensic services firm providing fraud awareness training for all Business Office staff, as well as the heads of programs. In

² In this connection, it is important to note the College's troubled audit history. Four years ago, my office resolved findings relating to single audits for four fiscal years, FYs 2009 through 2012. Three of the audits were overdue, and cumulatively my office resolved 27 findings (several of a repeat nature) in the determination letter issued on September 27, 2013. The findings concerned time and effort, eligibility, matching, procurement, reporting, and segregation of duties. At that time we expressed concern about the College's allocation of adequate resources to administer its Federal grants in compliance with grant requirements and internal control procedures.

addition to some training provided during Convocation Week, the College stated it planned to conduct, by the end of December 2017, a series of training sessions on the Uniform Guidance.

Regents' Oversight. The College stated that its Board of Regents' Finance Committee takes up audit findings and internal controls as regular agenda items, and reports on their status to the full Board. Budget adjustments require the approval of the Board, which also reviews cash balances, asset dispositions, and interim financial reporting to state agencies.

We believe that the diverse measures the College has initiated, and others underway, point to changes that will reduce the risk of recurrence of findings the FY 2016 single audit identified. As noted above, the College's latest audit surfaced numerous weaknesses across a number of functions and offices; addressing them will require sustained and vigilant attention by the College's Regents and management. It requires also the allocation of resources (including training, recruitment of appropriate staff, and internal auditors) that will enable the College to properly administer Federal funds and monitoring compliance with requirements, and the corrective measures that have been launched so far. Please note that in an earlier determination letter, issued on September 27, 2013, OCFO cautioned the College about recurrent audit findings going back to FY 2009. At that time we urged the College to commit itself to appropriate grant administration, including adequate internal controls that would avoid the recurrence of findings.

The Uniform Guidance requires that Federal agencies conduct a risk assessment of grantees, an important aspect of which is audit history and follow-up on findings. We will be communicating with other offices the results of this audit's resolution and recommend follow-up on the corrective measures the College has undertaken. In this connection, please report by November 30, 2017 on the results of the forensic engagement currently underway and the status of the corrective measures summarized in this letter.

Audit Finding No. 2016-031, Page 129, Period of Availability of Funds

The auditor found that the College had charged unused paid time off (PTO) for two terminated employees to the grant at the date of termination. There were no compliance deficiencies noted in the allocation of leave, but the auditor found that the internal control structure over this requirement was weak. The auditor explained that the College's cumbersome and manual process in the charging of leave resulted in an increased risk that employee's PTO costs could be paid outside the period of availability. Because the grant award is for one year at a time, the College was at risk of employees leaving after the grant ended without charging the grant the employee's time off benefit. Also, the College was at risk for charging PTO to the current grant from previously earned PTO on a prior grant (and thus outside the period of availability).

Auditor's Recommendation

The auditor recommended that the College re-examine the process for how PTO is allocated to grants and other projects. The reexamination should consider an automated process for allocating time to grants based on when the PTO benefit is earned.

The College's Response

The College stated it would re-examine the current manual process used to determine the accrual and calculation of PTO for grants and other projects and transition to an automated process. The College committed to completing its corrective action by December 2017.

PAG Determination

We sustain the finding and concur with the auditor's recommendation. In communication with my office, the College stated that the College's new Human Relations manager had engaged a professional data base manager to ensure charge of accrued leave each pay period. The changes were said to be implemented already as of July 14, 2017

Audit Finding No. 2016-032, Page 131, Grant Compliance

The auditor found that the College had not assessed and revised its current policies to ensure they covered internal controls, as required by the Uniform Guidance (at 2 CFR 200.303). That guidance requires effective controls to manage Federal awards, show compliance with Federal statutes, regulations and terms and conditions of the awards, and identify how the organization evaluates and monitors compliance. The auditor referenced how five widely recognized components of internal control relate to grant administration³. These are: *control environment* (approval processes); *risk assessment* (processes to assess risk); *control activities* (processes to check accuracy); *information and communication* (training); and *monitoring* (review processes).

With regard to the College's Title III grant, the auditor stated that it should focus on cash management, allowable operating and payroll costs and activities and reporting.

Auditor's Recommendation

The auditor recommended that the College's grants management take additional training related to Uniform Grant Guidance requirements and that it network with other colleges and universities in the State to obtain guidance over best practices used in the creation of policies and procedures for the types of grants the College has.

The College's Response

The College stated that it had eliminated in FY 2017 the position of the Vice President for Advancement, which had been assigned the responsibility for managing all grant activities, and shifted supervision of all grant program managers to the Vice President for Academic Affairs and the Grant Manager under the Finance Department. The College also said it would develop a professional development plan that provides for training regarding Uniform Grant requirements and obtaining best practices and policies from other colleges and universities in the State.

PAG Determination

We sustain the finding and concur with the auditor's recommendation. In resolving this finding, we are mindful that our focus could not be limited to the College's Title III grant since its period of performance was ending on September 30, with no new Title III grant being awarded. In communication with the College, we requested that it identify internal control weaknesses in the administration of the Title III grant and that it apply measures to correct them to other ED grants it is continuing to manage. It is our understanding that this is an important aspect of the work of its forensic accountants, whose work is expected to continue through the Fall.

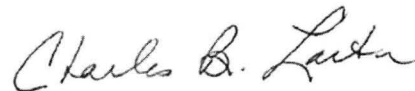
³ Identified in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These are cited in 2 CFR 200.303 (a).

The College needs seasoned staff overseeing its grants management. In that regard, the College has informed us that it expects to select, by the end of September, a Grants Manager who will oversee the administration of its Federal grants. Over the past few years, that position had not been filled and its responsibilities transferred to others at the College, most recently to the Provost. It is our understanding that the Grants Manager will oversee implementation of internal controls, including ensuring proper training of staff.

The FY 2016 single audit identified 37 findings. This determination has focused only on three of them, but, as noted earlier, many of the others involve financial management concerns that affect adversely the management of Federal grants. As the audit noted, several of the findings reported in the FY 2016 single audit were identified in past audits, but not properly addressed. We appreciate the number of steps already taken by the College to tackle the long list of weaknesses the auditor reported. In the past few months these have included change in personnel, addition of staff, plans for training, and change in accounting procedures that address segregation of duties concerns. Apart from the status reports requested above, we will be monitoring future audits to determine progress being made on the findings resolved in this letter, and take administrative steps if necessary. In light of the timing of corrective measures, we are mindful that some of the findings may recur in the next single audit (for FY 2017).

We appreciate your support of the corrective measures the College has initiated in response to the audit and the extensive cooperation throughout the resolution process that was provided by Ricky Bejarano, Vice President for Finance and Administration. If you need more information about this letter, please contact Max Rudmann of my staff at 202-245-8092.

Sincerely,



Charles B. Laster
Director
Post Audit Group
Financial Improvement
Operations

Cc: REDW, LLC
New Mexico Office of the State Auditor
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